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HOUSE OF REPRESENTATIVES

A FAMILY TAX REPORT CARD

COMPARING SEVEN CRITICAL TAX ISSUES FOR FAMILIES AS TREATED UNDER CURRENT LAW, KEMP-KASTEN, BRADLEY-GEPHARDT AND TREASURY II

A STAFF REPORT

OF THE

SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES

NINETY-NINTH CONGRESS

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August 16, 1985

TO: MEMBERS
SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES

We commend to your attention this staff report, "A Family Tax Report Card."

Each of the major tax reform proposals now before Congress - Kemp/Kasten, Bradley/Gephardt, and Treasury II, as well as current law, are graded based on their treatment of seven critical family tax issues.

This document will help the Committee as it continues to promote tax fairness for the American family.

Sincerely,

George Miller
Chairman

Dan Coats
Ranking Minority Member

FAMILY TAX REPORT CARD

	Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury 2
Fair Taxes for Large Families	D	C	A	B
Fair Taxes for Single Parent Families	C	D	A	B
Fair Taxes for Low Income Working Families	D	C	B	A
Fair Taxes for Average Income Families	D	A	C	B
Fair Taxes for Families with Two Earners	D	B	A	C
Fair Taxes for Families Using Child Care	A	C	D	B
Fair Tax Treatment of the Marriage Penalty	B	A	D	C

Introduction

Tax reform will have a profound effect on the resources available to American families and children.

For that reason, we have asked the staff of the Select Committee on Children, Youth, and Families to analyze and compare Bradley-Gephardt, Kemp-Kasten, Treasury II, and current law, solely from the perspective of how they would affect American families.

The seven major family-related questions addressed are: (1) which proposals make it less costly to have children; (2) which provide the most relief to single parents; (3) which reduce taxes for low-income working families; (4) which have the lowest overall rates for the average family; (5) which have the least marriage penalty; (6) which provide the most support for child care expenses; and (7) which treat one-earner and two-earner families most fairly?

By providing this "family-based tax analysis," we hope to assist others who believe that too little attention has been paid to the tax treatment of families.

After all, the average American family with children pays over $7,000 in taxes each year, more than half of which goes to federal income taxes. Of their remaining disposable income, the same average family spends more than $5,000 for each child, mostly on food, housing, transportation, and other necessities.* Because taxes so greatly influence the final resource level available for family functioning, and because these resources are spent largely on children, tax policy has become a de facto family and children's policy.

In addition, a family-based analysis of tax reform is appropriate simply because many of the most critical children-and family-related provisions are becoming outdated. For example, nearly all of the major reform proposals increase the exemption for children, recognizing that it has not kept up with inflation.

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* In 1983, mean pre-tax income for married couple families with children was $31,841; mean after-tax income was $24,824 (Bureau of the Census). The average annual spending for that year for a 12-year-old child in families with at least $30,000 in income and no more than five children was $5,015 (U.S. Department of Agriculture).

An equally critical change has been a demographic one -- the vastly increased number of single parents, and of families with young children where both parents, or the only parent present, works. This will make the tax treatment of child care expenditures increasingly important to more families, from all income levels.

This report highlights those tax provisions which most directly affect families with children. The broader analysis of each proposal will remain, as it should, with committees and researchers with broader tax and budgetary responsibilities. It is those broader analyses which will allow final conclusions to be drawn regarding the total worthiness of each reform package, in its entirety.

It is time, however, that the tax reform debate focus more intensely on those tax provisions which directly determine family resources, and compare proposals in that context. This analysis and the "Family Tax Report Card" provide all of us that opportunity.

Highlights of Tax Report Card

-- Averaging the seven grades for each plan, Treasury II heads the class with a 2.86 average; Kemp-Kasten is next with a 2.71 average; Bradley-Gephardt has a 2.57 average; and current law has a 1.86 average.

All the reform proposals are better for families than current law.

-- However, each proposal is worse than current law in providing support for average-and low-income families using child care. Given the large increases in the number of single parents and two-earner families, unless the plans are corrected, most families using child care will have fewer resources to meet this expense.

-- Relative to the other plans, Bradley-Gephardt, as currently designed, is average or below average for single parents, poor families, large families, and families using child care. It is good to excellent for average-income families and two-earner families.

-- Relative to the other plans, Kemp-Kasten, as currently designed, is excellent for large and single-parent families, and good for poor families. The plan is below average for child care, and only average for average-income families.

-- Relative to the other plans, Treasury II, as currently designed, is excellent for poor families and above average for nearly all other categories. It is average with regard to two-earners and the marriage penalty.

-- All plans significantly reduce the tax burden of the working poor, although Bradley-Gephardt clearly leaves room for improvement.

-- Bradley-Gephardt emphasizes marriage neutrality by reducing the marriage penalty, while Kemp-Kasten and Treasury II emphasize horizontal equity by significantly reducing the inflated tax burden of large families relative to small families.

-- All plans provide greater tax relief for for one-earner families than for two-earner families. Because Treasury II increases the maximum IRA contribution for a non-working spouse to $2,000, the greatest disparity occurs under that plan.

-- All plans lower taxes for single-parent families, but Bradley-Gephardt actually increases the disparities in tax burdens between single parents and married couples.

Narrative Description of Tax Analysis

Background

-- The report card is designed to show how all families will be affected by the tax reform proposals currently before Congress.

-- The report card draws on our hearing, "Tax Policy: What Do Families Need" (April 24), and on our bipartisan Committee report, "Tax Policy: How Do Families Fare" (August, 1985), which includes eight scholarly analyses of family and tax issues.

-- It specifically evaluates the provisions of each reform proposal which most directly affect certain fundamental family matters, including family formation, employment, child care, and, of course, disposable income.

-- The best grades were given to those proposals which provide the most horizontal equity among families, or ensure that equal-sized families with equal incomes pay equal taxes; are most progressive, or ensure that those families with more income pay a higher percentage of their income in taxes; and, which are most marriage neutral, or result in the fewest tax disparities as a result of being married.

-- These criteria, horizontal equity, progressivity, and marriage neutrality, are the three commonly accepted goals of equity under an income tax, and are used as measures of evaluating tax reform throughout our report, "Tax Policy: How Do Families Fare."

Rationale and Methods

1. Fair Taxes For Large Families

Rationale. There are still many large families in America (6.45 million with more than 3 children). The tax burdens for large families have increased far faster than those of small families over the past three decades, largely because of the erosion in the value of the personal exemption.

Method Used for Grading Proposals. The tax code adjusts for family size through the personal exemption. To determine how each plan treats large families, each was evaluated to determine how changes in this provision lessen the tax burden of large families. The highest grade was given to the plan which reduced large families' tax burden the most in comparison to current law. No child care expenses were assumed.

Grades. Current Law - D
Bradley-Gephardt - C
Kemp-Kasten - A
Treasury II - B

How the Grades Were Achieved. Kemp-Kasten and Treasury II reduce the tax burden of large families most significantly by raising the personal exemption to $2,000. Bradley-Gephardt increases the personal exemption for taxpayers to $1,600, but reduces the exemption for dependents to $1,000 from its estimated 1986 value of $1,080.

2. Fair Taxes For Single-Parent Families

Rationale. Twenty-two percent of all U.S. children now live in single-parent families, nearly double the number since 1970. The vast majority of single-parent families are female-headed families. Nearly half of all female-headed families with children are poor, even though in nearly half of these poor families, the mother works.

A single-parent family, however, can have a higher effective tax rate than an equal-sized one-or two-earner married-couple family with the same income.

Method Used In Grading Proposals. Single-head-of-household status is adjusted for in the tax code by three provisions: the zero bracket amount (ZBA), the personal exemption, and the tax schedules for heads of households. To determine how each plan treats single-parent families, each was evaluated to determine the effect of changes in these provisions in lessening the disparities between single-parent families and married-couple families. No child care expenses were assumed.

Grades. Current Law - C
Bradley-Gephardt - D
Kemp-Kasten - A
Treasury II - B

How the Grades Were Achieved. Under current law, the difference in the ZBA between heads of households and married couples is $1,180. Kemp-Kasten significantly reduces the disparity in the tax obligations this causes by raising the head of household ZBA to $3,200, only $100 less than for married couples under the plan. Treasury II raises the ZBA for heads of households to $3,600, $400 less than married couples under the plan. The ZBA under Bradley-Gephardt is $3,000, fully $3,000 less than the $6,000 ZBA for married couples.

3. Fair Taxes For Low-Income Working Families

Rationale. In 1970 there were 3.5 million families with children below the poverty line. The number reached 5.85 million in 1983. Today, one out of five children, and one out of two black children, live in poverty. However, using 1986 poverty estimates, a two-parent, one-earner family with two children, earning $1,800 less than the poverty level, would be subject to income tax. Obviously, impoverished families have the least capacity to pay taxes, and the greatest likelihood of being taxed into poverty.

Method Used In Grading Proposals. Low-income working families' tax liabilities are especially affected by the level of the zero bracket amount, the amount of the personal exemption, the earned income tax credit (EITC), and the tax rates. To determine how each plan treats impoverished families, each was evaluated in terms of the effect of changes in these provisions in lessening the tax burdens on low-income families.

Grades. Current Law - D
Bradley-Gephardt - C
Kemp-Kasten - B
Treasury II - A

How The Grades Were Achieved. By increasing the ZBA, personal exemption and the earned income tax credit, and reducing the rate at which the EITC is phased out from 12.2 to 10 percent, Treasury II actually provides a tax refund for a poverty level family of four. Under Kemp-Kasten, increases in the EITC, ZBA and personal exemption, combined with the 20% wage exclusion, reduce the tax of a poverty level family significantly, but the steeper 15% EITC phase-out rate makes that family ineligible for the credit. (It is important to note, however, that the special 20% wage exclusion does have the effect of lifting tax thresholds under Kemp-Kasten higher than under Bradley-Gephardt and Treasury II: $14,125 for a one-earner family of four compared to $9,575 under current law, $11,200 under Bradley-Gephardt and $12,798 under Treasury II.) Bradley-Gephardt increases the ZBA, but by raising the personal exemption only for taxpayers and not for dependents produces the least generous tax reduction of the three.

4. Fair Taxes for Average Income Families

Rationale. The average pre-tax income of families with children in 1983 was $31,841, yet rising costs make it increasingly difficult for these families to maintain a desired standard of living. For example, the median cost of an existing home in San Francisco is $134,500, and the amount of income necessary to obtain a mortgage is over $40,000. The tax burden on single-earner families is, therefore, of enormous importance.

Method Used in Grading Proposals. One of the most important determinants of middle income families' disposable income is their federal income tax liability or average tax rate. Each reform proposal was evaluated to determine the difference in average tax rates for same-sized families with equal income.

Grades. Current Law - D
Bradley-Gephardt - A
Kemp-Kasten - C
Treasury II - B

How the Grades Were Achieved. Bradley-Gephardt reduces average-income, one-earner families' taxes the most because they face a very low marginal tax rate (14%) and the level of income for

the average family with children is not in the range where surtaxes apply. The 15% marginal rate that that family would face under Treasury II is close to that of Bradley-Gephardt. The Kemp-Kasten plan reduces the amount of income subject to tax more than the other two plans, primarily because of the 20% exclusion of earned income. However, the marginal rate assesed on taxable income is 24%.

5. Fair Taxes for Families with Two Earners

Rationale. The number of one-earner, married-couple families has declined steadily since 1970, and the number of two-earner, married-couple families has grown rapidly. In 1983, there were 17 million two-earner, married-couple families with children, and 7.2 million one-earner, married-couple families with children. Eighty percent of the women in two-earner households have husbands who earn less than $30,000. The tax treatment of families with two earners will greatly affect the resources available to these families.

Method Used In Grading Proposal. Changes in two key provisions in the tax code, the two-earner deduction and the maximum contribution allowed in an IRA account, can significantly affect the relative tax treatment of one-and two-earner couples. Each plan was evaluated to determine how changes in these provisions affect the relative tax treatment of one-and two-earner families.

Grades. Current Law - D
Bradley-Gephardt - B
Kemp-Kasten - A
Treasury II - C

How the Grades Were Achieved. The tax rates of both one-and two-earner families are reduced under each of the reform plans. However, under Treasury II, because a non-working spouse in a one-earner family is allowed a $2,000 IRA deduction, (rather than $250 under current law and each of the other proposals) one-earner families' taxes are lowered at a significantly faster rate than two-earner families. The two-earner deduction is repealed under each reform plan.

6. Fair Taxes for Families Using Child Care

Rationale. Nearly 60% of mothers with children age 3-5, and nearly 50% of mothers with children under one, are now in the labor force. By 1990, there will be nearly three million more children under 10 in single-parent households, a fifty percent increase since 1970. The Select Committee determined, after a bipartisan nationwide investigation of child care, that "as we move towards 1990, more families will need child care .... and, the situation will worsen unless parents are given more child care options."

Method Used In Grading Proposals. Support for families with child care expenses is provided in the tax code through the child care credit, the rate of which is reduced as income rises. Since it is a credit, it is of great value to low-income families. To determine how each plan treats families with child care expenses, each proposal was evaluated in terms of the value of the credit (or deduction, or neither) in assisting families in paying for child care.

Grades. Current Law - A
Bradley-Gephardt - C
Kemp-Kasten - D
Treasury II - B

How the Grades Were Achieved. Under Bradley-Gephardt and Treasury II, low-and average-income families' ability to claim a child care deduction at their low marginal tax rates clearly reduces the value of the credit in comparison to current law. By the same token, its value for higher income families at higher marginal rates is significantly increased. Repeal of the child care credit under Kemp-Kasten obviously reduces its value to zero.

7. Fair Tax Treatment of the Marriage Penalty

Rationale. Tax rates for married-couple families can exceed those which would be paid by two single individuals earning the same income. The so-called marriage penalty has traditionally existed because the zero bracket amount, and marginal tax brackets for a joint return, are not twice that of a single return. The "two-earner deduction," introduced in 1981, reduces the marriage penalty, but does not eliminate it for many taxpayers.

Method Used In Grading Proposals. The marriage penalty is adjusted for in the tax code primarily by the zero bracket amount and the tax rate schedules. To determine the marriage penalty, each reform proposal was evaluated in terms of the combined effect of changes in these provisions in reducing the disparities between the tax paid by two married persons versus the tax paid on the same income by two single persons.

Grades. Current Law - B
Bradley-Gephardt - A
Kemp-Kasten - D
Treasury II - C

How the Grades Were Achieved. Bradley-Gephardt eliminates the marriage penalty for couples with incomes below $40,000 because the combined ZBA for joint filers is exactly twice that for singles and the tax is a flat 14%. The marriage penalty

increases for low-and moderate-income families under Kemp-Kasten and Treasury II because the disparity in the ZBA under both plans is greater than under current law, and under Treasury II, the tax rate schedules for joint returns are less than twice that of single returns.

Tax Analysis Worksheets*

Fair Taxes for Large Families

Current Law

Today, the Adams family, a childless one-earner family earning $27,000 has an effective income tax rate (percentage of income going to taxes) of 12.45%. A similar, equal-income couple with four children has an effective tax rate of 9.1%.

Bradley-Gephardt

The Adams family would pay an effective tax of 9.2%, 26% less than current law. A comparable couple with four children would pay 7.15%, 21% less than under current law.

Kemp-Kasten

The Adams' would pay an effective tax of 12.7%, 2% more than current law. A comparable family with four children would pay 5.6%, 38.5% less than under current law

Treasury II

The Adams' would pay an effective rate of 10.55%, 15% less than current law. A comparable couple with four children would pay 6.1%, 33% less than under current law

All estimates are for 1986

Question # 1: Fair Taxes for Large Families

Family Type: One earner, 0 children (Adams)

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$27,000	$27,000	$27,000	$27,000
Adjustments:				
IRA				
2-Earner 4/				
20% Excl			5,400	
AGI:	27,000	27,000	21,600	27,000
ZBA:		6,000	3,300	4,000
Per. Ex.	2,160	3,200	4,000	4,000
Tax. Incom.	24,840	17,800	14,300	19,000
Total Tax:	3,362	2,492	3,432	2,850
Credits:				
Cld. Care				
EITC				
Final Tax:	3,362	2,492	3,432	2,850
Effective Tax Rate:	12.45%	9.2%	12.7%	10.55%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spoures

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Question # 1: Fair Taxes for Large Families

Family Type: One earner, 4 children

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$27,000	$27,000	$27,000	$27,000
Adjustments:				
IRA				
2-Earner 4/				
20% Excl			5,400	
AGI:	27,000	27,000	21,600	27,000
ZBA:		6,000	3,300	4,000
Per. Ex.	6,480	7,200	12,000	12,000
Tax. Incom.	20,520	13,800	6,300	11,000
Total Tax:	2,460	1,932	1,512	1,650
Credits:				
Cld. Care				
EITC				
Final Tax:	2,460	1,932	1,512	1,650
Effective Tax Rate:	9.1%	7.15%	5.6%	6.1%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Fair Taxes for Single Parents

Current Law

With an income of $21,000, the Jones family, a single-parent household with 3 children, pays an effective tax of 10.2%. A one-earner family with two children pays 8.5%, 16.6% less than the Jones' rate. An equal-size two-earner family pays 7.6%, 25.5% less than the Jones' rate.

Bradley-Gephardt

The Jones family would pay an effective tax of 9.0%. A similar one-earner family would pay a rate of 6.5%, 28% less than the Jones' rate under the plan. A comparable two-earner family would pay the same rate of 6.5%.

Kemp-Kasten

The Jones family would pay an effective tax of 6.4%. A comparable one-earner family would pay 6.3%, 1.6% less than the Jones' rate under Kemp-Kasten. A two-earner family would pay the same rate of 6.3%.

Treasury II

The Jones family would pay an effective tax of 6.7%. A comparable one-earner family would pay 6.4%, 4.5% less than the Jones' rate under the plan. A comparable two-earner family would pay the same rate of 6.4%.

Question # 2: Fair Taxes for Single Parents

Family Type: Head of household, 3 children (Jones, assumes no child care expenses)

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$21,000	$21,000	$21,000	$21,000
Adjustments:				
IRA				
2-Earner 4/				
20% Excl			4,200	
AGI:	21,000	21,000	16,800	21,000
ZBA:		3,000	3,200	3,600
Per. Ex.	4,320	4,800	8,000	8,000
Tax. Incom.	16,680	13,500	5,600	9,400
Total Tax:	2,140	1,890	1,344	1,410
Credits:				
Cld. Care				
EITC				
Final Tax:	2,140	1,890	1,344	1,410
Effective Tax Rate:	10.2%	9%	6.4%	6.7%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question #2 Fair Taxes for Single Parent Families

Family Type: One earner, 2 children

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$21,000	$21,000	$21,000	$21,000
Adjustments:				
IRA				
2-Earner [4]				
20% Excl			4,200	
AGI:	21,000	21,000	16,800	21,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	16,680	9,800	5,500	9,000
Total Tax:	1,784	1,372	1,320	1,350
Credits:				
Cld. Care				
EITC				
Final Tax:	1,784	1,372	1,320	1,350
Effective Tax Rate:	8.5%	6.5%	6.3%	6.4%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 2 Fair Taxes for Single Parents

Family Type: Two earner, 2 children (assumes no child care expenses)

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$21,000	$21,000	$21,000	$21,000
Adjustments:				
IRA				
2-Earner [4]	1,050			
20% Excl			4,200	
AGI:	19,950	21,000	16,800	21,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	15,630	9,800	5,500	9,000
Total Tax:	1,616	1,372	1,320	1,350
Credits:				
Cld. Care				
EITC				
Final Tax:	1,616	1,372	1,320	1,350
Effective Tax Rate:	7.6%	6.5%	6.3%	6.4%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Fair Taxes for Low Income Working Families

Current Law

The Roberts' are a one-earner family with two children earning a poverty-level income of $11,400.* Under current law, they would pay $386 in taxes, for an effective tax rate of 3.4%

Bradley-Gephardt

The Roberts' would pay $28 in federal income taxes, for an effective tax rate of .25%, 93% less than under current law.

Kemp-Kasten

The Roberts' would pay no income taxes under Kemp-Kasten, 100% less than under current law.

Treasury II

The Roberts' would pay no income taxes and, because they qualify for the earned income tax credit, would receive a cash payment of $261. Their effective tax rate is -2.3%, 168% less than under current law.

* Estimate drawn from "The President's Tax Proposal to the Congress for Fairness, Growth and Simplicity."

Question # 3: Fair Taxes for Low Income Working Families

Family Type: One-earner, 2 children (Roberts, assumes no child care expenses)

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$11,400	$11,400	$11,400	$11,400
Adjustments:				
IRA				
2-Earner 4/				
20% Excl			2,280	
AGI:	11,400	11,400	9,120	11,400
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	7,080	200	0	0
Total Tax:	386	28	0	0
Credits:				
Cld. Care				
EITC 5/				261
Final Tax:	386	28	0	-261
Effective Tax Rate:	3.4%	.25%	0.0%	-2.3%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

5/ Assumes maximum EITC and earned income limits adjusted for inflation where applicable

Fair Taxes for Average Income Families

Current Law

The Andrews' are a one-earner family with two children and $31,181 in income. Under current law in 1986, their effective tax rate would be 12.5%.

Bradley-Gephardt

The Andrews' would pay an effective tax rate of 9.1% under Bradley-Gephardt, 27% less than under current law.

Kemp-Kasten

The family would pay an effective tax of 10.7% under the Kemp-Kasten plan, 14% less than under current law.

Treasury II

Under the President's plan, the Andrews' would pay an effective tax of 9.3%, 26% less than under current law.

Question # 4 Fair Taxes for Average Income Families

Family Type: One-earner, 2 children (Andrews)

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$ 31,841	$ 31,841	$ 31,841	$ 31,841
Adjustments:				
IRA				
2-Earner [4]				
20% Excl			6,368	
AGI:	31,841	31,841	25,473	31,841
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	27,521	20,641	14,173	19,841
Total Tax:	3,980	2,890	3,402	2,976
Credits:				
Cld. Care				
EITC				
Final Tax:	3,980	2,890	3,402	2,976
Effective Tax Rate:	12.5%	9.1%	10.7%	9.3%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Fair Taxes for Families with Two Earners

Current Law

The Gordons, a one-earner family of four with $34,000 in income, and a maximum IRA contribution of $2,250, would pay an effective tax of 11.64%. The Parkers, an equal-income, two-earner family of four, with the maximum IRA contribution of $4,000 would pay an effective tax of 9.46%.

Bradley-Gephardt

The Gordons would pay an effective rate of 8.46%, 27% less than under current law. The Parkers would pay 7.74%, 18% less than under current law.

Kemp-Kasten

The Gordons would pay an effective tax of 9.63%, 17% less than under current law. The Parkers would pay a rate of 8.4%, 11% less than under current law.

Treasury II

The Gordons' effective tax rate would be 7.94%, 32% less than under current law. The Parkers' rate would also be 7.94%, 16.1% less than under current law.

Question # 5: Fair Taxes for Families with Two Earners

Family Type: One-earner, 2 children (Gordon)

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$ 34,000	$ 34,000	$ 34,000	$ 34,000
Adjustments:				
IRA	2,500	2,500	2,500	4,000
2-Earner 4/				
20% Excl			6,800	
AGI:	31,750	31,750	24,950	30,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	27,430	20,550	13,650	18,000
Total Tax:	3,957	2,877	3,276	2,700
Credits:				
Cld. Care				
EITC				
Final Tax:	3,957	2,877	3,276	2,700
Effective Tax Rate:	11.64%	8.46%	9.63%	7.94%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 5: Fair Taxes for Families with Two Earners

Family Type: Two-earner, 2 children (Parker, assumes no child care costs)

	Present Law 1/	B-G	K-K 2/	Treasury II 3/
Income	$ 34,000	$ 34,000	$ 34,000	$ 34,000
Adjustments:				
IRA	4,000	4,000	4,000	4,000
2-Earner 4/	1,500			
20% Excl			6,800	
AGI:	28,500	30,000	23,200	30,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Tax. Incom.	24,180	18,800	11,900	18,000
Total Tax:	3,217	2,632	2,856	2,700
Credits:				
Cld. Care				
EITC				
Final Tax:	3,217	2,632	2,856	2,700
Effective Tax Rate:	9.46%	7.74%	8.4%	7.94%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Fair Taxes for Families Using Child Care

Current Law

The Malcoms, a two-earner family of four with at least $4,800 in child care expenses, have an income of $20,000. They can claim a child care credit of $1,200. With the credit, the Malcoms have an effective tax rate of 1.3%

The Burtons, a two-earner family with two children and $4,800 in child care expenses, earn $31,841. By claiming the maximum child care credit of $960, their effective tax rate is 8.3%

The Fredricks', a similar two-earner family earning $100,000, can also claim a $960 credit, leaving them with an effective tax rate of 27.6%.

Bradley-Gephardt

The child care credit is converted to a deduction of at most $2,400 for one child and $4,800 for two or more children. For the Malcoms, the value of the deduction is $672. Their effective tax rate is 2.8%, 115% greater than under current law.

The deduction for the Burtons is also worth $672. Their effective tax rate is 6.9%, 17% less than under current law.

The Fredricks' deduction is also worth $672. Their effective tax is 20.4%, 26% less than under current law.

Kemp-Kasten

The child care credit is repealed. Therefore, none of the families receive any direct tax relief for child care expenses. Under Kemp-Kasten, the Malcoms' effective tax rate is 5.6%, 331% greater than under current law; the Burtons' rate is 10.7%, 29% greater than under current law and the Fredricks' rate is 18.1%, 34.4% less than under current law.

Treasury II

The credit is converted to a deduction of at most $2,400 for one child and $4,800 for two or more children at the taxpayer's marginal rate (15%-25%-35%). The deduction is worth $720 for the Malcoms. Their effective tax rate is 2.4%, 85% more than under current law.

The deduction is also worth $720 for the Burtons. Their effective tax rate is 7.1%, 14.5% less than current law.

The deduction is worth $1,680 for the Fredricks'. Their effective tax rate is 20.02%, 27% less than under current law.

Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Malcom)

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Adjustments:				
IRA				
2-Earner[4]	1,000			
20% Excl			4,000	
AGI:	19,000	20,000	16,000	20,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Child Ca. Deduc.		4,800		4,800
Tax. Incom.	14,680	4,000	4,700	3,200
Total Tax:	1,464	560	1,128	480
Credits:				
Cld. Care	1,200			
EITC				
Final Tax:	264	560	1,128	480
Effective Tax Rate:	1.32%	2.8%	5.6%	2.4%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Burton)

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$ 31,841	$ 31,841	$ 31,841	$ 31,841
Adjustments:				
IRA				
2-Earner[4]	1,592			
20% Excl			6,368	
AGI:	30,249	31,841	25,473	31,841
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Chld Care Deduc.		4,800		4,800
Tax. Incom.	25,929	15,841	14,173	15,041
Total Tax:	3,602	2,218	3,402	2,256
Credits:				
Cld. Care	960			
EITC				
Final Tax:	2,642	2,218	3,402	2,256
Effective Tax Rate:	8.3%	6.9%	10.7%	7.1%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Fredricks)

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$100,000	$100,000	$100,000	$100,000
Adjustments:				
IRA				
2-Earner [4]	3,000			
20% Excl			13,460	
AGI:	97,000	100,000	86,540	100,000
ZBA:		6,000	3,300	4,000
Per. Ex.	4,320	5,200	8,000	8,000
Chld Care Deduc.		4,800		4,800
Tax. Incom.	92,680	84,000	75,240	87,200
Total Tax:	28,602	20,360	18,058	20,020
Credits:				
Cld. Care	960			
EITC				
Final Tax:	27,642	20,360	18,058	20,020
Effective Tax Rate:	27.6%	20.4%	18.1%	20.02%

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Fair Treatment of the Marriage Penalty

Current Law

At $20,000 in income, the Hawkins', a two-earner couple with a 50/50 income split, pay about 4.9% more than two singles with the same combined income. The "marriage penalty" increases as income increases, so the Garcias, a similar two-earner couple with $50,000 in income would pay 13.14% more than two singles. At incomes above $75,000, the penalty declines as the rate of progression in tax rates flattens out. The Jacksons, a similar couple earning $100,000, would pay 12.97% more than two singles, although the actual dollar amount of the penalty would still be greater than the Garcias' because of their higher income.

Bradley-Gephardt

The Hawkins' would suffer no marriage penalty: their tax would be exactly the same as that for two singles with a combined income of $20,000. At higher incomes, there would be a marriage penalty. The Garcias would pay 21% more than the two singles, a greater penalty than under current law. However, the Jacksons would pay 8.12% more than two singles, less of a penalty than under current law.

Kemp-Kasten

The Hawkins' would pay 27.94% more than two singles. The Garcias would pay 6.1% more, less than the penalty they would pay under current law. The Jacksons would pay 2.41% more than two singles, over five times less than the penalty they would pay under current law.

Treasury II

The Hawkins' would pay a tax 17.6% greater than two singles. The Garcias would pay 13.8% more, a slightly greater penalty than under current law. The Jacksons would pay 11.4% more than two singles, below the penalty they would pay under current law.

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two earner, 0 children (Hawkins)

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$20,000	$20,000	$20,000	$20,000
Adjustments:				
IRA				
2-Earner[4]	1,000			
20% Excl			4,000	
AGI:	19,000	20,000	16,000	20,000
ZBA:		6,000	3,300	4,000
Per. Ex.	2,160	3,200	4,000	4,000
Tax. Incom.	16,840	10,800	8,700	12,000
Total Tax:	1,809	1,512	2,088	1,800
Credits:				
Cld. Care				
EITC				
Final Tax:	1,809	1,512	2,088	1,800
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$10,000	$10,000	$10,000	$10,000
Adjustments:				
IRA				
2-Earner				
20% Excl			2,000	
AGI:	10,000	10,000	8,000	10,000
ZBA:		3,000	2,600	2,900
Per. Ex.	1,080	1,600	2,000	2,000
Tax. Incom.	8,920	5,400	3,400	5,100
Total Tax:	862	756	816	765
Credits:				
Cld. Care				
EITC				
Final Tax:	862	756	816	765
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Garcia)

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$50,000	$50,000	$50,000	$50,000
Adjustments:				
IRA				
2-Earner [4]	2,500			
20% Excl			10,000	
AGI:	47,500	50,000	40,000	50,000
ZBA:		6,000	3,300	
Per. Ex.	2,160	3,200	4,000	4,000
Tax. Incom.	45,340	40,800	32,700	46,000
Total Tax:	8,193	6,912	7,848	8,000
Credits:				
Cld. Care				
EITC				
Final Tax:	9,193	6,912	7,848	8,000
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$25,000	$25,000	$25,000	$25,000
Adjustments:				
IRA				
2-Earner[4]				
20% Excl			5,000	
AGI:	25,000	25,000	20,000	25,000
ZBA:		3,000	2,600	
Per. Ex.	1,080	1,600	2,000	2,000
Tax. Incom.	23,920	20,400	15,400	23,000
Total Tax:	4,062	2,856	3,696	3,515
Credits:				
Cld. Care				
EITC				
Final Tax:	4,062	2,856	3,696	3,515
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Jackson)

	Present Law [1]	B-G	K-K [2]	Treasury II [3]
Income	$100,000	$100,000	$100,000	$100,000
Adjustments:				
IRA				
2-Earner [4]	3,000			
20% Excl			16,780	
AGI:	97,000	100,000	83,220	100,000
ZBA:		6,000	3,300	
Per. Ex.	2,160	3,200	4,000	4,000
Tax. Incom.	94,840	90,800	75,920	96,000
Total Tax:	29,072	21,312	18,220	23,100
Credits:				
Cld. Care				
EITC				
Final Tax:	29,072	21,312	18,220	23,100
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

	Present Law[1]	B-G	K-K[2]	Treasury II[3]
Income	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Adjustments:				
IRA				
2-Earner[4]	2,400			
20% Excl			8,340	
AGI:	50,000	50,000	41,660	50,000
ZBA:		3,000	2,600	
Per. Ex.	1,080	1,600	2,000	
Tax. Incom.	48,920	45,400	37,060	48,000
Total Tax:	12,867	9,856	8,894	10,365
Credits:				
Cld. Care				
EITC				
Final Tax:	12,867	9,856	8,894	10,365
Effective Tax Rate:				

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses